BIG BUSINESS AND THE INEQUALITY TRAP IN LATIN AMERICA
TAXES, COLLUSION, AND UNDUE INFLUENCE

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Abstract

Big business in Latin America has enormous instrumental power (through mechanisms such as lobbying, media concentration, and malapportionment) and structural power (via capital flight and the threat of disinvestment). Business can wield this power in many ways that – even if not deliberate – increase and sustain inequality. First, business wields its power to keep overall taxation and effective income taxes, in particular, low, thereby depriving the government of resources to redistribute and the ability to lower inequality through taxes. Second, firms collude in many ways that increase costs to poorer consumers and boost income to the rich.

Códigos JEL: D63, H25, H26, L4, L12, L44, L51
Palabras clave: Business concentration, business politics, taxation, transfer pricing, antitrust, competition policy, price fixing
1. Introduction

The literature is huge on the measurement of inequality in Latin America and the identification of several of its proximate causes and correlates. Among other initiatives, Nora Lustig runs a center at Tulane University – Commitment to Equity Institute (CEQ) – devoted to the better measurement of inequality and the analysis of its origins. Multilaterals devoted to the region – the Economic Commission for Latin America and the Caribbean (ECLAC) and the Inter-American Development Bank (IDB) – publish regular reports on inequality (Busso and Messina 2020). Among the proximate causes of the high inequality in Latin America, these and other publications point to underinvestment in education and low human capital, racism, informality (Perry et al. 2007), regional disparities, lack of social spending, and little redistribution through taxes (Busso and Messina 2020). Observers cheered on the sustained reductions in inequality in almost all countries in Latin America after 2000 where the proximate causes were usually related to rapid growth, increasing education, and minimum wage policies (Lustig, López-Calva, and Ortiz-Juárez 2013).

But why do states redistribute so little? Research on the proximate causes is much thinner. Some authors argue that inequality has deep roots in Latin America’s exploitative colonial past (Mahoney 2010; Dell 2010). Others look at the track record in the 20th century and point to the lack of democracy for much of the century and weaker left parties and unions (Huber and Stephens 2012). Research on 21st century political explanations for inequality is just emerging, though with a similar focus. Among countries of Latin America, those with longer track records in democracy redistributed more (Busso and Messina 2020).

Democracy may be working, but it is taking its time. At this pace, it will be decades before Latin America approaches even the most unequal rich countries, such as the United States. And, in many ways, democracy may be part of the problem. Much of the 2000s decline was due to growth and wage policy and, to a lesser extent, government redistribution through antipoverty programs such as means-tested conditional cash transfers. The lack of redistribution through government action is the starkest comparative difference with rich countries (details later) and should be a greater focus in comparative analysis. For instance, Holland (2018) provides one explanation – diminished expectations – to explain why democracies in Latin America do not redistribute more. Poorer voters do not expect social policies to benefit them and hence do not support government redistribution. From another angle, Scartasini, Stein, and Tommasi (2010) suggest that multiple impediments to full participation by poorer voters essentially shift the median voter up the income scale where voters are less likely to support redistribution.

These studies focus exclusively on voters and their preferences, rather than asking what groups might wield power beyond votes to influence the state capacity for redistribution. The prime suspect in this view is business, especially big business.

One of the ironies of the market-oriented neoliberal reforms in the 1990s is that Latin Amer-
ica ended up not with lots of lean firms in competitive markets, but rather a few huge firms -- mostly diversified business groups and multinational corporations (MNCs), many with market power in oligopolies and monopolies (Table 1). Privatization since the 1990s has thinned the ranks of state-owned enterprises, but those remaining are often huge, especially oil firms, and account for between 8 percent of the revenues of the top 100 firms in Chile to 25 percent in Colombia. MNCs have long numbered among the largest firms, accounting for 20 percent–30 percent of total sales, with Argentina the outlier at 43 percent. The remaining private domestic firms – mostly diversified, family-controlled business groups – account for the rest, usually 40 percent–60 percent; Chile is the outlier with almost three quarters.³

Table 1. Share of total revenues of top 100 firms

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<td>SOE</td>
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<td>Private domestic</td>
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Note: Companies are assigned to a country based on their country of incorporation. State-owned enterprises (SOEs) are enterprises in which the national or subnational government holds a majority share. Multinational corporations (MNCs) are identified by the headquarters of the ultimate corporate parent of the companies. Revenue data refer to 2019.

In Latin America, Chile ranks highest not only on various measures of free markets, but also on firm concentration and market domination by huge conglomerates (Figure 1). A full analysis of inequality and the possibilities for redistribution must factor in the economic and political behavior of these behemoths.

Big business and inequality intersect in multiple ways in Latin America, but a comprehensive review is beyond the scope of this paper. The focus instead is on two crucial policy areas: 1) business resistance to the progressive taxation of corporate and personal income; and 2) the inability of antitrust agencies and policies to deter price collusion and the transfer of resources from consumers to firms (and their owners).

A distinctive feature of inequality in Latin America is that governments hardly redistribute; Gini coefficients decline little after taxes and transfers, a median reduction of only six Gini points.⁴ Some governments do spend a lot on social welfare, especially pensions (as in Brazil), but much of that spending goes to the middle class rather than the poor.

³ Business groups are large conglomerates often with subsidiaries in unrelated sectors and mostly family owned and managed (Khanna and Yafeh 2007; Bull, Castellacci, and Kasahara 2014; Schneider 2008). References to business in this paper refer to big business.

⁴ With the partial exceptions of Brazil and Uruguay (details later, Figure 3) (Wang and Caminada 2011; Holland 2018).
Similarly, education spending is often skewed to higher education, which benefits richer families. And, governments achieve little redistribution through taxation, largely because most taxes are indirect on consumption, and income taxes generate a meager share of total revenue (about 2 percent of GDP in Latin America compared with an average of 8 percent of GDP in rich countries). The hypothesis explored in this paper is that business power shares a large portion of blame for both low effective taxation overall and meager direct taxation.

Figure 1. Revenues of top 50 firms, as a percent of GDP

Big business also transfers income from the poor to the rich through the market power and abusive pricing practiced in numerous sectors, from telecommunications in Mexico to chicken and toilet paper in Chile. The general question here is why have antitrust agencies been unable to constrain abusive practices by large businesses. The answer revolves largely around endemic institutional weakness.

Explaining why tax and antitrust policies favor big business requires an understanding of business power and influence. The next section briefly notes major features of political institutions and economic structures in Latin America that favor business interests. These institutional features include the lax enforcement of campaign finance regulation, weak political parties, legislative malapportionment, and coalitional presidentialism (as in Brazil and Ecuador) (Chaisty, Cheeseman, and Power 2014). A crucial factor in this analysis is how centralized

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5 Ansell (2010, 3) argues generally that “the wealthy are typically disproportionately represented in higher education. As such, public spending on universities is often fiscally regressive, amounting to a redistribution of resources from the school-educated poor and middle class to the college-educated rich.” According to the IDB flagship report on education, “Since these subsidies [for higher education] are typically financed with general tax revenue, and the wealthier are more likely to be academically prepared for college, there is a significant risk of redistributing income from the poor to the rich. Indeed, in Latin American and Caribbean public universities that offer universal and free access, students from wealthier families, who are typically more academically prepared, enroll and graduate in greater proportions” (Busso et al. 2017, 213). Democratization in Latin America boosted the share of education spending going to primary education (Brown and Hunter 2004).
and encompassing (multi-sectoral) business organizations are (Schneider 2004). Among more structural aspects, section III emphasizes the comparatively small size of the urban working class, the heightened mobility of capital, and media concentration and ownership by large domestic business groups.

As any Marxist or follower of Piketty can remind us, business in all capitalist economies generates substantial inequality. The focus here is on the extra, or abnormal, contributions by business to extreme inequality in Latin America. The argument is not that business actions alone explain inequality, but rather that high inequality – and especially the inequality trap – cannot be understood without close analysis of business and its political influence. The focus is narrowly on the business contribution to inequality without offering an overall explanation for inequality.

Big business is responsible for a large share of extreme and lasting levels of inequality. Yet, this is not a conspiracy theory that a cabal of business people sought explicitly to promote inequality. Rather, numerous independent actions of business people in diverse arenas — labor markets, taxes, pricing, etc. — promote inequality, inequality that business people in the abstract might not prefer. In this sense, inequality can be viewed as an externality, like pollution, that large firms – domestic and foreign – generate in the normal course of doing business. Viewing inequality as an externality and market failure may also help policy makers devise regulations to curb the negative effects of big business on inequality.

One particularly large and pervasive political externality of private investment by business is structural power (Fairfield 2015). As business people go about deciding on near-term investments, their actions can – without any organization or communication across firms – generate a policy response by government. If officials think a measure, especially a tax or spending policy to promote redistribution, will lead business to reduce overall investment, then officials may withdraw the measure to promote the investment that generates the growth and jobs that governments depend on. As Fairfield (2015) shows, this policy reaction often takes the form of anticipated reactions, where officials drop policy proposals just out of worry over disinvestment. Structural power thus exists in all economies dependent on private investment, whether it is explicitly acknowledged or not. Yet, in many cases, business leaders weaponize this structural power by claiming publicly that certain policies – especially tax and redistributive policies – will provoke disinvestment. Most recently, Covid-19–induced fiscal imbalances made governments more dependent on private investment to promote economic recovery and thus further enhanced business structural power.

The next sections (2 and 3) start with an overview of business power in Latin America and the various institutional and structural features that favor it. Section 4 examines taxes and business opposition to them. Section 5 analyzes competition policy and the often weak agencies charged with enforcing it. Section 6 closes with some policy implications.

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6 This paper uses the standard distinction between instrumental business power based on actions, such as lobbying, collective action, corruption, and other forms of direct business pressure on government, and structural power that derives from business generation of investment and employment. For an extended conceptual discussion, see (Fairfield 2015, Chapter 2).
2. Institutional Factors that Amplify Business Instrumental Influence

A first institutional issue is whether democracy by itself can be expected to reduce inequality. The short answer for now seems to be a resounding ‘maybe’ or ‘only under conditions of high growth.’ In principle, a range of theories -- Meltzer and Richard (1981) Boix (2003), Acemoglu and Robinson (2013) -- all argue that the poor will use the vote to push redistribution. And, empirically, in the 20th century in Latin America, democracy promoted equality by opening opportunities for the left to get elected (Huber and Stephens 2012, 3).

However, among skeptics, Albertus (2015) shows that democracies redistributed less land to the poor than autocracies (and landowners in Brazil, as discussed later, have amassed enormous blocking power in the legislature) (Fernández Milmanda 2019a). Moreover, after lowering inequality in the first decade of the 21st century during the commodity boom, democracies in Latin America were unable to stem rising inequalities in the slow growth 2010s. Reconciling these divergent findings on the effects of democracy on inequality may not be possible at such an aggregate level because variations within each regime type are so vast. Examining more specific institutional configurations may hold more promise.7

The institutional configuration of majoritarian presidential elections, combined with proportional representation (PR) elections for legislatures is common in Latin America and rare elsewhere (Chaisty, Cheeseman, and Power 2018). The result of this combination of electoral rules is fragmented party systems, and, in consequence, presidents elected without legislative majorities. Presidents thus build legislative coalitions by exchanging cabinet and other high-level positions in the executive for party support in Congress, or what is known as coalitional presidentialism. In fragmented party systems (a natural outgrowth of PR elections), small groups of legislators can extract rents from the executive in return for votes on legislation presidents want to pass. This opens opportunities for business to finance particular parties or candidates to use these vote negotiations to favor these businesses. One of the clearest examples of this was the Party of the Republic in Brazil. In negotiations with the president, this party always demanded the transportation ministry in exchange for the party’s support in congress. In turn, the party received large donations from construction firms and other firms with interests in transportation policy (Schneider 2013).

The business sector that has exploited coalitional presidentialism in Brazil to greatest advantage is large land owners and agribusiness (Fernández Milmanda 2019b). The Bancada Ruralista, as this group of legislators is known, has disproportionate influence in the Brazilian congress, and effective veto power over policies it opposes. Landowners first mobilized to elect members to the constitution writing assembly in 1988 because many other parties, and not just left parties, were talking about the need for land reform. Landowners elected under different party labels formed a solid bloc in the assembly that killed meaningful land reform. Given this success, landowners continued after the 1980s to elect many deputies in the lower chamber and bargain their support for other legislation in return for backing their agenda for agriculture.

7 Haggard and Kaufman (2016) examine details of transitions to democracy in dozens of countries and find that democratizing movements rarely push for redistribution.
By the 2010s, the bancada ruralista had scores of members (116 by 2007) in congress, offices, and research staff and was a model for many other groups seeking influence in Brasilia (Fernández Milmanda 2019b). Since the mid-1990s, landowners have accounted for “between 15 percent and 30 percent of the Chamber of Deputies, while the party of the president has never won more than a fifth of congressional seats” (Fernández Milmanda 2019a, 12). Needless to say, land reform has been minor, and, rather than taxing agriculture (or agricultural exports as in Argentina), the government was a net contributor of around 2 percent of GDP to agriculture (Gurría, Boyce, and De Salvo 2016, 11). This government transfer mostly to wealthy landowners does not contribute much directly to inequality, but it is part of a larger pattern of transfers to the rich (e.g., 4.5 percent of GDP in business subsidies, on which more later, or free higher education in public universities) that explains why the Brazilian state redistributes so little (details in section IV).

Another institutional feature common in Latin America, malapportionment – whereby sparsely populated, usually rural districts are overrepresented -- is also associated with high inequality. Among 50 developing countries, higher levels of inequality correlate with greater malapportionment, and higher malapportionment in turn with lower levels of income taxation. In the analysis of Ardanaz and Scartascini (2013), inequality, malapportionment, and low personal income taxes are all closely related in Latin America (16 of the 50 countries in their broader study). Economic elites, their argument stresses, have pressed for malapportionment in moments of institutional reform and democratization to protect their interests, and then overrepresentation of conservative rural districts blunted the redistributive efforts of representatives of denser, poorer, urban districts. Although big business in cities does not play a major direct role in these politics, it is not difficult to imagine that they would have been willing partners with conservative rural elites to increase malapportionment.

Big business and media (television, print, radio, online news) are closely intertwined, and media ownership is highly concentrated throughout the region. The dominant media firms are themselves well-known conglomerated business groups: Televisa and Televisión Azteca in Mexico, Globo in Brazil, Clarin in Argentina, El Comercio in Peru, and, historically, El Mercurio in Chile. Some of these business groups grew out of newspapers or radio in the 20th century to become dominant in most other media markets as well. In other cases, business groups in other sectors moved into media, e.g., Fortabat in Argentina, Santo Domingo and Ardilla Lülle in Colombia, Luksci in Chile, Cisneros in Venezuela, and other business groups especially in Central America (Segovia 2005, 31). Overall, corporate concentration was high across all media (print, radio, and television) and communication services in Latin America: on average, the largest four operators control 82 percent of the market, ranging from about two thirds in radio and print media to over 90 percent in television (Becerra and Mastrini 2009, 213). At a minimum, these huge firms are not likely to use their media programming to argue for taxing corporations and their wealthy owners, nor of course for using regulation to restrict media concentration. Beyond content, media firms also deploy their power in more traditional instrumental ways. In one of the more blatant cases of big business (ab)using democratic legislatures, the me-

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8 Carlos Slim did not buy up major content media in Mexico (possibly because incumbent business groups were unwilling to sell), but he did buy 17 percent of the New York Times (Alpert and Beckerman 2015).

9 Business control of media in Guatemala channeled business opposition to tax increases, discussed later (Bogliaccini and Madariaga 2019, 23).
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Dia giant Televisa wrote up a bill that sympathetic legislators in Mexico converted almost unchanged into what became known as the Ley de Televisa and passed it in seven minutes (Guerrero and Márquez-Ramírez 2014a, 5). Moreover, the 2012 Election yielded at least 20 congressmen and women who were employed directly or indirectly by Televisa and TV Azteca – and in this latter case, the daughter of the main shareholder of the network is member of the senate. This group is called the ‘telebancada’ or tele-bench and it spreads throughout the legislative commissions of broadcasting, telecommunications, and communications in both chambers (Guerrero and Márquez-Ramírez 2014b, 301).

Lastly, business contributes to inequality by supporting the propagation of ideological positions that legitimate existing inequality, shift debate away from redistribution, and question the capacity of government and policy to implement effective redistributive policies.10 Some wealthy business people have funded a range of think tanks and foundations with a general free market, neoliberal bent, especially in Chile (the Centro de Estudios Públicos and Libertad y Desarrollo) and Mexico (Instituto Mexicano para la Competitividad [IMCO]).11 Despite its name and substantial research staff, IMCO appears little interested in antitrust policies. A review of dozens of articles and research on competition yielded only one blog on antitrust, from 2011.12 Pushing a neoliberal agenda does not necessarily mean promoting inequality, though it usually includes a critique of big government and state intervention in the economy, some measure of which is required for redistribution.13 On the plus side, they sometimes argue forcefully for greater competition.

Family ownership and management of large domestic firms in Latin America are both a structural feature of corporate governance, but also an additional feature of instrumental power (figure 2).14 Although empirical research is sparse, three hypotheses about business families in politics seem plausible. First, families have more intense attachment to their firms than do paid professional managers and are likely to be more intensely opposed to taxation, regulation, and other measures that adversely affect the family patrimony. Similarly, second and later generation managers would not have such lucrative careers outside their family firm and, so, care more intensely about attacks or perceived attacks on their patrimony.

Second, families have advantages in politics due to their longer time horizons, again compared with professional managers (Morck, Wolfenzon, and Yeung 2005). If families agree to support politicians, families are better able to monitor politicians’ performance over time and reward or punish accordingly (Schneider 2013). Lastly, families resolve agency problems in both manage-

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10 See Piketty (2020) on the importance of beliefs and ideology in sustaining high levels of inequality.
12 IMCO’s largest funder was the Consejo Mexicano de Negocios with 22 percent of total funding in 2018 and 36 percent in 2019 (IMCO 2018, 2019). Other businesses or business foundations contributed another 4 percent–5 percent each year. Much of the rest was international from aid agencies such as the United States Agency for International Development and foundations such as Hewlett. The 50 or so members of the Consejo Mexicano de Negocios are the largest domestic business groups in the country, many with oligopoly or monopoly market power, especially in media and telecommunications.
13 Early champions of trade liberalization argued that it would shift resources to the abundant factor, labor. In the event, trade liberalization led to skill-biased technological change that increased the wage premium for education, especially secondary education, which in turn contributed to widening inequality in the 1990s (Huber and Stephens 2012; Lustig, López-Calva, and Ortiz-Juárez 2013).
14 Fogel (2006, 603) found that large family-owned firms are common everywhere and that “greater oligarchic family control over large corporations is associated with worse social economic outcomes. It also correlates with more bureaucratic and more interventionist governments, and less developed financial markets.”
ment and politics (Schneider 2008). On the latter, later generations sometimes go into politics, giving business families trusted representation within the political elite. As noted above, the daughter of the patriarch of TV Azteca in Mexico is in the senate, and, in June 2020, President Bolsonaro appointed the son-in-law of media tycoon Sylvio Santos as minister of communication.

**Figure 2.** Family firms, Latin America

![Family firms, Latin America](chart)

Source: Capital IQ, own analysis based on companies, investor sites and newspapers.
Note: Revenues data is from 2019. Companies are assigned to a country based on their country of incorporation. SOEs are defined as those in which the national or subnational government holds a majority share. MNCs are identified by the headquarters of the companies’ ultimate corporate parent. The rest, private domestic, are classified between family firms and non-family firms. Family firms are defined as those companies in which an individual, a family or a group of families (up to three families) have political control over the company (i.e. >50% voting rights).

In sum, business has advantages in democracies everywhere. Business in Latin America shares these advantages in campaign finance and lobbying. Furthermore, business in Latin America possesses additional influence through institutions common in the region, but rarer elsewhere such as malapportionment and coalitional presidentialism.

### 3. Structural Factors that Augment Business Power

Several aspects of the structure of economies in Latin America and business positions within Latin America either contribute directly to inequality or raise barriers to policies to lower inequality. One macro structural feature is the broad contours of social classes that differ from those of early industrializers and, especially, social democratic welfare states. Huber and Stephens (2012) argue that the left is key to promoting redistribution. However, late development in Latin America generated a comparatively small urban working class that lacked the force to provide parties on the left the support needed to gain office.\(^\text{15}\) Huber and Stephens (2012) draw more generally on power resource theory, a large body of research on rich countries, that argues that the variable power of labor explains policy and inequality outcomes. Where labor power is high,

\(^{15}\)A small urban working class in Latin America also explains the region’s delayed transition to democracy (Rueschemeyer, Stephens, and Stephens 1992), which impeded redistribution. The strength of organized labor varied across Latin America. Where it has had greater power, as in Argentina, welfare states are more developed.
as in northern Europe and Scandinavia, so too are redistributive policy and relative equality. In Latin America, more recent de-industrialization and the persistent informal sector have further weakened and fragmented the working class (Doner and Schneider 2016). Because power is always relative, business power benefited from the relative weakness of labor.

By the 21st century, the greatest source of structural power in business in Latin America was capital flight and disinvestment. Mobile resources, open capital accounts, and international expansion of large domestic firms through outward foreign direct investment facilitated exit options and augmented the structural power of business. Structural constraints on governments on the left and their redistributive agendas were most apparent beginning in the 1990s, largely through the dependence of countries on international bond and commodity markets (Campello 2013). When commodity prices were low in the 1990s and 2010s, left governments governed on the right (e.g., Chavez’ first term [1999–2001] and Dilma’s second term [2014–2016]). In contrast, rising commodity prices after 2003 allowed left governments to ignore bond markets and pursue greater redistribution, as did all governments of the pink tide: Kirchners (2003–2016), Correa (2007–2017), Morales (2006–2019), Chavez (1999–2013), and Lula (2002–2010) (Campello 2013).

In the domestic realm, structural power – manifest in the threat of lower private investment – can also encourage left governments to restrain themselves in an agenda-setting way, that is, left governments reject their ideal policies in areas of redistribution to avoid provoking underinvestment. Fairfield (2015) offers detailed empirical studies of the Lagos government in Chile in the early 2000s when the finance ministry moderated tax increases to avoid backlash from business. As in the case with international bonds and commodities, the strength of domestic structural power varies with the rate of unemployment and proximity to elections. Governments are more likely to worry about depressing business investment if elections are nigh and unemployment high.

A last structural issue with business is related to the low quality of education in Latin America. In the 1990s and early 2000s, governments in Latin America rapidly solved the access gap — most children in the region are now in school — but not the low education quality (Elacqua et al. 2018). For example, the results of the Program for International Student Assessment (PISA) show consistently high levels of inequality and absolutely lower performance among 15-year-olds in Latin America. Average scores are low, and a high proportion of students score under level 2 (of 6) and hence have little opportunity to ever earn returns to higher skills (OECD 2019). This inequality in educational attainment creates lasting inequality in market incomes.

What does business have to do with poor education quality? This structural issue has less to do with business power and more to do with the kinds of jobs created and the skills demanded by big business. The structure of business reduces both the labor market and the political demand for skilled workers. Labor markets are characterized generally by a low skill equilibrium whereby workers do not invest in their skills because few skilled jobs are on offer, and firms invest in low-skill production because they cannot find skilled workers (Schneider 2013). Employment grew dramatically in the 2000s, but most of the jobs created were low skill, low productivity, and low wage (Pagés, Pierre, and Scarpetta 2009). For the limited number of higher skilled positions, business trains its own workers—hire for attitude, train for skills, as summarized by Bassi et al. (2012)—or presses government for narrower training programs rather than broad-based educational upgrading (Kosack 2012; Bogliaccini and Madariaga 2019). Consequently, business has little reason to mobilize politically to press for educational improvements. Across major education reform attempts in Chile, Colombia, Ecuador, Mexico, and Peru since 2000, business has been conspicuous by its absence in
A final issue that is part structural – the result of extreme inequality – and part behavioral is that the wealthy in Latin America are internationalized, cosmopolitan, and detached from their own societies. They do business, take vacations, and send their children to school abroad. Casual chit-chat comes easier in Davos than local slums. And the lives of the rich at home are siloed off: gated residential communities, private schools (where children only see other rich children), private transportation, private health care, and pretty much anything else that can be privatized. The wealthy in all countries are detached, but those in Latin America seem even more so. The social solidarity that supports the success of universal (not contributory) social welfare in Europe is nowhere to be found in Latin America (with the possible exception of Uruguay).

In sum, in comparative terms, many institutional and structural features enhance business power in Latin America. In fact, given these many advantages, the puzzle is more how states managed to redistribute anything at all.

4. Blocking Taxes: How Business Obstructs One Route to Redistribution

Post–tax and transfer Gini coefficients in Latin America are not much lower than pre-tax coefficients (figure 3). Pre–tax and transfer Gini coefficients in Latin America (blue circle) is on par with the coefficients in other developed countries (red and orange circles). However, taxes and transfers reduce inequality by 25 percent to 50 percent elsewhere, but much less in Latin America: close to zero in the Dominican Republic and Paraguay, around 5 percent in Colombia, Mexico, and Peru, and around 15 percent in Brazil and Uruguay (and probably similar in Argentina). Median redistribution in the nine countries of Latin America in figure 3 is only 6 percent. Many components go into this lack of redistribution. On the spending side, much heralded non-contributory benefits – conditional cash transfers and pensions -- in the 2000s did not end up accounting for much government spending, with a median value for both of only 0.2 percent of GDP across Latin America (Holland and Schneider 2017, 993). In Brazil, perversely, Bolsa Família recipients pay more in consumption taxes than they receive in benefits. Education spending is often skewed towards higher education and thus constitutes a subsidy to middle-class families. Public pensions are also often skewed to richer recipients.

However, business is not a key actor in policies on social spending. Business influence on the lack of redistribution through fiscal policy arises in three other ways: (a) blocking tax increases generally, (b) resisting increases in the share of revenue through personal and corporate income taxes (Fairfield and Jorratt 2014), and (c) expanding tax spending through exemptions and other opaque subsidies to business, thereby crowding out more redistributive spending. Corporate and income taxes have historically been low. Income taxes are proportionally lower

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16 Cardoso and Falleto (1979) are among the first to have considered Latin America’s transnational bourgeoisie. Bresser-Pereira (2011, 2016) more recently laments the absence of a national bourgeoisie.

17 Unless otherwise noted, taxes in this section refer to effective taxation, not official tax rates. Statutory tax rates are sometimes high, but businesses and wealthy families use exemptions and evasion to lower the actual taxes they pay.
in middle-income countries than in developed countries (figure 4) (Besley and Persson 2013, 2014). Among all regions, developing and developed, the countries of Latin America collect the least in income tax as a share of GDP (Mahon 2011, 320). Data are scarce, but the top 1 percent pay little in taxes, ranging from only 7 percent on income in Colombia to 15 percent in Chile (where the top 1 percent earn 23 percent of all income and profits), compared with 21 percent in the United States and 31 percent in Germany (Fairfield 2019, 173).

Figure 3. Inequality and redistribution, Latin America and developed countries


Latin America collects only 1.3 percent of GDP in personal income tax and has only a 5 percent effective tax rate on the richest decile (figure 5). In Europe, those numbers are several times greater: 13 percent of GDP from income taxes and a 21 percent effective tax rate for the top decile. Not surprisingly, personal income taxes in Latin America reduce inequality by only 2 percent versus 12 percent in Europe. Chronic evasion in Latin America reduces these effective rates and reaches 2.4 percent of GDP for value added taxes (VAT) and 4.3 percent of GDP for income taxes for a total of $340 million in 2015. Evasion on corporate income tax was 27 percent in Brazil, and two thirds in Costa Rica and Ecuador.

18 Unless otherwise noted, the data in this paragraph are taken from (ECLAC 2016, 106–107). For an analysis of methods for calculating evasion, see (Gómez-Sabaini and Morán 2016).
Both the low tax take overall and the lower proportion of income taxes to total taxes can usually be traced back to opposition by business and wealthy families. And, beyond the several cases of successful business opposition considered below, many proposals to raise taxes probably never survived the initial discussions because policy makers squashed them,

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**Figure 4.** Total taxes and income taxes, by level of development

![Graph showing total taxes and income taxes by level of development.](source: Doner and Schneider 2020)

**Figure 5.** Effective personal income tax and reduction in inequality, Latin America, 2011 (percent)

![Graph showing effective personal income tax and reduction in inequality.](source: ECLAC 2016)

Note: Latin America (16 countries) and the European Union (27 countries): effective tax rate on incomes of physical persons and the reduction in inequality associated with the income tax.
In aggregate, overall taxation levels are inversely correlated with the centralization of business organization (Castañeda 2017). Degrees of business organization, especially the existence of centralized, economy-wide associations, varies widely across Latin America (Schneider 2004). Where business has strong centralized associations – Chile, Guatemala, Mexico, and other, especially smaller, countries – overall taxation is lower. Where, in contrast, business lacks encompassing, centralized organizations – Argentina, Brazil, and Uruguay – taxes are much higher. Other important factors, such as the strength of the left and labor, contribute to these differences, but this tight correlation between low taxation and the organizational strength of business is revealing and raises questions of just how well-organized business manages to keep taxes low.

The pink tide of left governments in the 2000s did not change this overall tax picture much (Filgueira et al. 2011). The lack of change in direct taxation conforms to historical patterns in the 20th century where left governments in Latin America promoted greater equality, but not through more spending and taxation as in Europe (Huber and Stephens 2012, 7; Fairfield 2015), and offers illuminating comparisons in the 2000s of Argentina and Chile where governments were able to raise taxes on business in the former but not the latter. Historically, Chile had the lowest or second lowest level of corporate taxes in Latin America through the 2000s. The Lagos government (2000–2006) attempted to increase corporate taxes in 2003 and 2005, but business, through associations and right-wing parties in congress, thwarted major changes. Lagos did manage in 2005, after several high-profile tax evasion scandals, to increase taxes on mining firms. In Argentina, the Kirchner governments (2003–2016) had a much easier time and raised export taxes, especially on soy beans (Freytes Frey 2015; Fernández Milmanda 2019b). The government met less opposition from fragmented business associations and businesses that lacked blocking power from allies in Congress until 2008 when street protests and road blocks by agricultural producers forced the government to rescind the latest tax rise. Increasing taxation did not however constrain production; soy output almost doubled from 2003 to 2008 (Fairfield 2015, 207).

Guatemala is an extreme case, with low total taxation and a long history of business blocking repeated attempts to raise taxes. Over the three decades to 2012, business successfully opposed nine efforts to increase taxation, especially direct taxation (Bogliaccini and Madariaga 2019, 22). In this quest, business employed, “the whole range of actions from pacific elite-level negotiations with the respective governments to more directly confrontational ones including investment strikes, the use of the media to mobilize public opinion, and influence over the Constitutional Court” (which ruled in favor of business in 38 of 88 tax cases) (Bogliaccini and Madariaga 2019, 22–23). When even the IMF recommended tax increases, business started calling the IMF socialist.

The flip side of opposition to tax increases is business lobbying for lower taxes and tax exemptions or deductions. These policy stories are less well known and probably take place in “quiet politics” out of the limelight (Culpepper 2010). In Brazil, Lavinhas (2017) documents
dozens of rule changes on rates and exemptions of taxes on capital gains and interest income beginning in the 1990s under Cardoso and extending through the succeeding Workers’ Party governments. The amazing thread through these policy changes is that most income from capital ended up exempt and untaxed through these governments of the center right and left.

And, for firms, the 4.5 percent of GDP of subsidies of all sorts from the Brazilian government to business come mostly through tax exemptions (Dutz 2018). For comparison, Bolsa Familia, which covers a quarter of Brazil’s poorest families, costs only about 0.5 percent of GDP (Holland and Schneider 2017). Latin America ranks high on overall tax spending: 3 percent of GDP in Brazil and 5 percent in Chile, compared with 1 percent in Germany and 2 percent in the Netherlands, but not as high as North America, with 5.0 percent in Canada and 6.5 percent in the United States (Sanhueza and Lobo 2014, 42). Much of this tax spending likely goes to business. Tax exemptions are politically easier to enact than more visible budgetary spending items.

Another distinctive feature of the distribution of taxes in Latin America is the heavy reliance on payroll taxes. As with consumption taxes, payroll taxes are less objectionable to business. During the years of import substitution industrialization, payroll taxes were a path of least resistance. Firms did not mind these taxes because they could easily be passed on to consumers (Wibbels and Ahlquist 2011). With the end of protection, the costs could be passed on to workers; as with all payroll taxes, workers, not business, end up paying in the form of reduced wages. Even if payroll taxes did reduce competitiveness internationally, they were in principle preferable to taxes on corporate or personal income.

Transfer pricing also reduces the ability of governments to tax the income of MNCs. Foreign direct investment has grown rapidly, and, by the mid-2000s, MNCs had around 400,000 subsidiaries in developing countries (Cooper 2017, 1). Intrafirm trade (among branches of MNCs) also grew and accounted for an increasing share of global trade -- from a third to half depending on countries and sectors (Ylönen and Teivainen 2018, 442). This intrafirm trade, along with other transactions among branches, in turn offered many opportunities for MNCs to move profits to low tax countries and tax havens through transfer pricing. As large, domestic business groups in Latin America internationalize (Finchelstein 2017; Sierra 2017), they will also have more opportunities to shift profits to lower tax jurisdictions.

Chile is an outlier in the region in its recent successful attempt to increase taxation in the 2010s; so it could be instructive to see how much of that experience could be generalized to the rest of Latin America. On the face of it, not much. Candidates around the world rarely campaign on raising taxes. Bachelet campaigned on just that – promising a huge tax increase. And her government delivered, in short order in its first year in office, a tax increase equivalent to 3 percent of GDP mostly on the richest 1 percent (Fairfield 2019, 186). In this, the Bachelet government had the wind at its back. The massive student demonstrations throughout her predecessor’s term created a sense of urgency for deep and costly reforms to the education system, at all levels. And Bachelet’s formidable electoral victory gave her a mandate to up taxes. Although he did not campaign on raising taxes, right-wing president Piñera also ended up increasing taxes. In his first term (2010–2014), Piñera bumped up taxation in response to a devastating earthquake. In his second term (2018–), Piñera promised more taxes to finance benefits granted in response to the estallido social after October 2019 and later to deal with the Covid-19 crisis.

Another intriguing case of a tax increase directly on business comes from Colombia during
the right-wing governments of Álvaro Uribe (2002–2010). To fund his military build-up and offensive against FARC, Uribe went to business and requested cooperation in a temporary tax, the Democratic Security Tax, that would be earmarked exclusively for defense spending. Because it was temporary and because business could monitor that taxes went exclusively for security, business agreed. For monitoring, the government created the Ethics and Transparency Commission with representatives from government, business, and other civilians. Then, as the effects of the first taxes showed positive results, business agreed to further taxes, though always with monitoring and time limits. Overall, the new taxes accounted for about a fifth of the defense budget, 5 percent of total revenues, or about 1 percent of GDP (p. 478).

These examples, on the plus side, show that it is possible to raise taxes on business. However, on the minus side, these stories show how difficult it is and how extreme circumstances rarely seen in most countries most of the time — civil war, natural disasters, and social upheaval — were necessary to overcome business resistance. In Fairfield’s 2015 book, only two of 30 cases of tax reform in Argentina, Bolivia, and Chile involved social movement mobilization. Would-be tax reformers cannot of course manufacture such crises, but they can be ready to take advantage of the next one to come. For example, in the midst of the Covid-19 pandemic, Argentine president Alberto Fernández proposed a one-time wealth tax in 2020 to pay for social assistance and government spending to weather the crisis.

Across the world, the Covid-19 pandemic increased spending on health and on business and income support and decreased tax revenues. Financing the deficits will require some mix of borrowing (and paying the rich for the loans) and higher taxes, but it is too early to tell whether new taxes could work to reduce inequality.

5. Regressive Transfers: Price Fixing and Emerging Competition Agencies

In perverse reverse Robin Hood (or Sheriff of Nottingham) fashion, large businesses in Latin America, domestic and foreign, often use market power to raise prices and thereby transfer income from poor and middle-class consumers (or from workers or suppliers to oligopsonies and monopsonies) to large businesses. The corporate goal is profits, not inequality, but the effect is to reduce the consumption of the poor. The excess skimmed off consumers ends up in the incomes of the rich captured in Gini calculations. However, the consumption loss of the poor does not lower their incomes and enter Gini figures. Instead, the paltry incomes that the poor do receive cannot stretch as far as they should because they are overpaying colluding firms.

Recent success in Latin America in detecting and (lightly) punishing cartels, especially in Brazil, Chile, and Mexico, is noteworthy, but should not be cause for complacency. Internationally and in strong antitrust jurisdictions like the United States and European Union, authorities estimate they are catching only a fraction of the colluders. Emerging cartel-busters in Lat-

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21 Unless otherwise noted, the information in this comes from (Flores-Macías 2014).
22 For a full review of theory and US empirics on the relationship of concentration to inequality, see Khan and Vafeas (2017).
in America are likely catching even fewer. Nor should the damage caused be minimized. A worldwide review of more than 700 studies and cases revealed 2,041 hardcore cartels (Connor 2014, 2). The mean overcharge was 49 percent (median was 23 percent). Cartels constitute an invisible yet massive transfer from poor consumers to wealthy business people. These transfers can be especially damaging to the poor if they target food and basic goods, as they have in cases of toilet paper and chicken (Chile) and diapers (Colombia). A World Bank review of antitrust research concluded that, “competition policy reforms can deliver benefits for the poorest households and improve income distribution.”

The introduction noted the irony that market-oriented reforms urged on governments in Latin America in the 1990s led to concentration and widespread market power. In retrospect, the multilaterals peddling privatization, trade liberalization, and deregulation in Latin America should have added an 11th recommendation – strengthen competition regulations and agencies – to the 10 recommendations in the Washington Consensus. In the event, the Washington consensus led directly through privatization of public oligopolies and monopolies and indirectly -- as in trade liberalization encouraging mergers to have the scale needed for international competition – to many firms with market power.

The Washington Consensus also recommended facilitating the entry of MNCs, perhaps on the shaky assumption that newly arrived MNCs would make markets more competitive. More competition may have come in some markets, but others brought collusion by MNCs that came to light in later antitrust investigations. Latin American regulators were also at a disadvantage in investigating possible collusion by MNCs arranged abroad but practiced in Latin America.

In some cases, governments even directly abetted the capture of market power. In Mexico, the Salinas government in the 1990s decided to sell Telmex as a monopoly, instead of breaking it up into regional firms as governments in Brazil and the United States had done (Mariscal 2002). Selling Telmex as a monopoly promoted two other goals of the government – maximize the sale price and draw in foreign capital – at the long-term expense of consumers. In other sectors, much of the early work of the Comisión Federal de Competencia Económica in Mexico in the 1990s was stopping price collusion by industry associations. Prior to the 1990s, governments had negotiated prices with these associations to slow inflation. Yet, even after the government stopped, associations continued setting prices (Connor 2009, 308).

In Brazil, later, at the end of the 2000s, Luciano Coutinho at the head of Banco Nacional de Desenvolvimento Economico e Social decided that Brazil needed massive firms to compete globally, and the bank set about promoting mergers and acquisitions, both in Brazil and abroad. Within a few years, the policy had created leading global companies in mining and meat processing, as well as huge behemoths in other sectors (Almeida, Lima De Oliveira, and Schneider 2018). While international markets were competitive, domestic concentration greatly reduced the number of firms, creating new problems for competition agencies.

Larger countries of Latin America have made consistent progress over the last three decades in creating and improving antitrust enforcement, with sustained support from the Organisation for Economic Co-operation and Development (OECD) and IDB. However, several gen-

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23 And “A lack of competition in food markets hurts the poorest households the most. Competition in input markets and between buyers helps farmers and small businesses” (Begazo and Nyman 2016, 1).
24 The OECD has published regular reviews of competition agencies with blunt criticism and clear recommendations for improvement. The IDB and OECD host an annual conference on antitrust and invite participants from all over the region.
eral problems remain: 1) regulators and agencies (especially in staffing) had to play catch up after firm concentration in 1990s; 2) agencies often lacked enough powers to investigate (e.g., dawn raids) (Table 2); 3) antitrust law lacked attractive leniency agreements (where first cartel member to blow the whistle gets lower or no penalty); 4) personnel, agencies often did not have enough person-power and relevant expertise (law and economics) to operate most effectively (Table 3); and 5) inadequate fines and penalties. According to an IDB report, “competition policy... is still a second division player waiting to be promoted to the premier league” (cited in De Leon 2016, 19).

Most competition agencies are tasked with two different responsibilities with different staffing and operational needs: 1) investigate and punish collusion among independent firms and 2) vet mergers and acquisitions to impede the formation of firms able to abuse their market power. Cartel busting requires lots of investigative tools of traditional police work. In contrast, merger vetting requires mostly economic analysis. The focus in this section is mostly cartel busting. In terms of the range of investigative powers competition agencies usually have (Table 2), Brazil was a regional leader as the Administrative Council for Economic Defense got leniency and dawn-raid powers in 2000. Then, from 2006 to 2009, a flurry of lawmaking granted these powers to agencies in Chile, Colombia, and Mexico.

Table 2. Investigative powers in competition agencies (dates agencies first obtained each power)

<table>
<thead>
<tr>
<th></th>
<th>Leniency (plea bargaining)</th>
<th>Dawn raids</th>
<th>Wiretapping</th>
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</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>2018</td>
<td>1999</td>
<td>no</td>
</tr>
<tr>
<td>Brazil</td>
<td>2000</td>
<td>2000</td>
<td>no</td>
</tr>
<tr>
<td>Chile</td>
<td>2009</td>
<td>2009</td>
<td>2009</td>
</tr>
<tr>
<td>Colombia</td>
<td>2009</td>
<td>2009</td>
<td>no</td>
</tr>
<tr>
<td>Mexico</td>
<td>2006</td>
<td>2011</td>
<td>no</td>
</tr>
</tbody>
</table>

Source: Elaboration based on national legislation, OECD, and other sources.

Analyzing the implications of mergers and acquisitions, investigating potential price collusion, and preparing legal cases require extensive, highly-trained personnel, especially lawyers and economists. Technical employees increased in recent decades in Latin America, but staffing levels still vary widely across the region (Table 3), from 99 in Chile to 425 people in Mexico. Or, weighted by the size of the economy, staffing varied from 0.19 employees per billion dollars of GDP in Argentina to 0.5 in Colombia, or, by population, from 2.0 employees per million in Brazil to 5.2 per million in Chile (according to calculations from the OECD, shaded area in table 3). However, national reports show widely different estimates for some

25 It is not just in Latin America where antitrust policies and agencies were fairly new. Before the mid 20th century, only the United States had effective antitrust policies; by the 1960s several dozen countries joined the United States. The European Union only got serious about antitrust in the 1980s (Connor 2009, 293–294).

26 According to one long time scholar of antitrust, “A narrow construction on the purpose of antitrust laws limits it to maximizing consumer welfare and efficiency; a broader interpretation gives some weight to income redistribution, small business protection, or dispersion of political and economic power” (Connor 2009, 291).
countries, especially Argentina and Chile, revealing how countries count differently who is an employee. In terms of overall effectiveness, observers usually rank Brazil first, with Chile and Mexico in second place (Connor 2009, 315; Kovacic 2016, 14).

An area of continued weakness in competition regulation is the size of the fines and penalties that convicted firms pay. Often, the penalties are low enough that simple cost-benefit analysis shows price collusion to be a rational business strategy with benefits worth more than the cost of penalties, a “parking ticket” as a cost of doing business (Sokol 2016, 3).

Since the 1990s, Mexico offers some of the most egregious examples of abusing market power. In Mexico, the World Bank (Levy and Walton 2009) and others (Elizondo 2009) have analyzed concentration and oligopolistic and monopolistic pricing in several key markets, especially communications.

Table 3. Employees in core competition agencies, Latin America

<table>
<thead>
<tr>
<th>Agency</th>
<th>Chile</th>
<th>Brazil</th>
<th>Argentina</th>
<th>Mexico</th>
<th>Colombia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>2018</td>
<td>2018</td>
<td>2018</td>
<td>2018</td>
<td>2019</td>
</tr>
<tr>
<td>Source</td>
<td>OECD</td>
<td>FNE portal</td>
<td>OECD</td>
<td>Relatório Cade</td>
<td>OECD</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>99</td>
<td>218</td>
<td>385</td>
<td>402</td>
<td>101</td>
</tr>
<tr>
<td>Employees / Million population</td>
<td>5.2</td>
<td>11.5</td>
<td>2</td>
<td>1.9</td>
<td>2.3</td>
</tr>
<tr>
<td>Employees / Billion GDP (current USD)</td>
<td>0.33</td>
<td>0.73</td>
<td>0.20</td>
<td>0.21</td>
<td>0.19</td>
</tr>
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</table>

Source: OECD and agency reports, FNE (Fiscalía Nacional Económica), CADE (Conselho Administrativo de Defesa Econômica), CNDC (Comisión Nacional de Defensa de la Competencia), COFECE (Comisión Federal de Competencia Económica), SIC (Superintendencia de Industria y Comercio).

Consumer welfare loss in the Mexican telecommunication sector over the period 2005-09 is estimated at USD 129.2 billion, or an average of USD PPP 25.8 billion per year. The latter amount is equivalent to 1.8% of Mexican GDP per year (or USD PPP 240 per capita per year). Given the very skewed distribution of income in Mexico the burden of this loss in consumer surplus weighs significantly on a large segment of Mexico’s population (OECD 2012).27

Initially, neither the competition agency nor the sector regulator could inhibit monopoly behavior. In Mexico, Telmex and Slim’s overall economic empire and other huge firms belong to what in Mexico are known as poderes fácticos, which can be loosely defined as informally powerful actors that can dilute or evade government control through lobbying and interference across the three branches of government: congress, the executive, and the judiciary (Trejo 2013). In Mexico, these include some of the huge business groups, media oligopolies,

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27 This OECD report generated a heated debate. Company consultants, including an MIT professor, and other Mexican authors made counter calculations showing instead consumer benefits (for a review (ten Kate 2014). Other academic heavyweights weighed in on the side of the OECD (Noll 2013).
and some unions (especially teachers and oil workers). The Pacto por Mexico (signed agreement among three largest parties) in 2013 was designed in part to regain state control over poderes fácticos in sectors such as telecommunication and education (where the teacher union had power and autonomy).

In Chile, government regulators uncovered collusive cartel pricing in several mass market goods, including toilet paper, pharmaceuticals, and fresh chicken. These cartels included both huge domestic business groups as well as large MNCs. It is revealing that colluding firms targeted products with relatively inelastic demand. Beginning on a golf course in Santiago, the iconic firm CMPC colluded from 2000 to 2011 with a much smaller firm PISA (together they had 90 percent of the market) to set prices for toilet paper and other paper goods. Consumer groups estimated the total overcharges at $500m (Economist 2015). CMPC agreed to reimburse consumers $150 million or 78 percent of its ill-gotten gains or dirty profits (France 24 2018).

For some, the spate of recent judgments shows that competition agencies are working; the glass is half full. However, there are strong grounds to think that many, probably most cartels have not been discovered. By existing estimates, “as most scholars believe,” the probability of detection is ... in the 13 percent to 17 percent range” (Connor 2009, 309). Looking only at international cartels, “Detection rates are 10 percent to 33 percent; so total Latin American affected sales of all cartels is somewhere between $0.5 and $2.0 trillion” (Connor 2009, 309). Besides institutional weakness, key problems in deterring cartels are 1) antitrust agencies are looking more at mergers than cartels; 2) Latin American antitrust agencies are only looking domestically, despite evidence of widespread international cartels (Connor 2009); 3) fines are too low to deter collusion which becomes instead “rational business conduct” (Connor 2009, 323).

In addition, in Mexico, Carlos Slim and other big businesses have lobbied Congress for favorable legislation (remember the Ley Televisa) and used the judicial system to stymie regulators. Big business in some countries found ways to use courts and other legal provisions to get injunctions stopping the implementation of antitrust measures. In Mexico, Carlos Slim and others used the constitutional right of amparo (granted to any Mexican citizen to stop a policy with a harmful effect on that citizen) to tie up antitrust rulings in court (Elizondo 2009, 184). The practice was so widespread among firms that consulting businesses emerged specializing in amparos for business (interview). In Brazil, defendants could appeal the decisions of the Administrative Council for Economic Defense up four layers of appeals courts (Connor 2009, 312). In Chile, other courts and the supreme court often overturned judgments of the National Economic Prosecutor or reduced penalties (Connor 2009, 306).

Although beyond the scope of this paper, trade protection can work in similar ways to cartels by fixing a minimum price. The difference between domestic and international prices constitutes then another non-market transfer from consumers to firms. The net distributional effect depends on who consumes the product (e.g., luxury versus wage goods) and whether workers in protected firms receive a large part of the transfer. In any case, these transfers merit greater scrutiny of their distributional consequences because countries such as Argentina and Brazil are among the most protected in the world (Greco et al. 2016, 59).

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28 For international cartels, 200 companies were involved in more than one case, 53 companies were caught in five or more cartels (Connor, 2009, 301). It seems getting caught for price fixing is not much of a deterrent.
29 The courts often also helped business challenge tax increases. On Guatemala, see Bogliaccini and Madariaga (2019, 23).
In sum, despite substantial gains in personnel and institutional powers, competition agencies and policies are still considered lesser players in government regulation and often lack experts, investigative powers, and sufficient penalties to deter collusion. Higher courts have often undermined judgments by competition agencies. Given low levels of detection, price fixing is likely to continue transferring billions of dollars from consumers to colluding businesses. And, to the extent cartels target basic consumer goods, such as food, where demand is relatively inelastic, the effects contribute to effective, but undetected widening of inequality.

6. Conclusions and Policy Implications

While business in Latin America may in principle oppose high inequality, the actions of big business in several arenas contribute to reinforcing the inequality trap. Section IV analyzes problems in taxation, both overall levels and low rates for income taxes, both personal and corporate. Thus, tax systems exacerbate inequality and at the same time deny governments resources to expand equality-promoting spending. Section V delved into the spotty record of antitrust actions to curb price fixing and the resulting transfers from consumers to colluding firms. Agencies and policies are trending in the direction of greater ability to discover and punish cartels but expert observers think more is needed to deter future collusion.

The unfolding pandemic shows several economic trends that do not bode well for post-crisis equality (Busso and Messina 2020). First, directly, the virus kills mostly poorer victims, for several reasons related to employment, mostly informal workers and others in low-wage service jobs (e.g., supermarkets). Many of these victims likely provided critical income to poor families. Second, lockdowns meant lay-offs and prescription of informal work. Very few workers in the bottom of the income distribution could work from home, as higher income professionals could. Third, government economic response in Latin America seemed lacking as in Mexico or not especially targeted to maintain employment (such as short-time work in Europe), so unemployment is likely to run higher and last longer.

Business in Latin America, as elsewhere, had little impact on how the health crisis played out and was mostly in defensive mode in the economic crisis. Big business will though be pivotal to any economic recovery. Given the sorry fiscal state governments will be in at the end of the health crisis, business will have much enhanced structural power due to the government’s greater dependence on business for investment and jobs.

Although the goals of this paper are primarily analytical, the analysis does suggest several policy implications. For the most part, policy remedies to the problems in sections II to V are available and have been used in other countries. In terms of instrumental power, the best, first option would be greater transparency in the flow of money into politics. As long as electoral campaigns are expensive, money from business and the wealthy will find its way into politics. Governments can though try to lower the costs of electoral campaigns by free TV time, for example. Social media also seem to be reducing some campaign costs. Malapportionment lowers the electoral heft of urban votes. Since urban voters are a majority in most countries, it would appear to be more open for revision. However, there are few cases of success in reducing malapportionment, possibly due to connivance of urban business elites. On structural power, governments can reduce it by prudent fiscal management and building up rainy-day funds.

On taxation, it is often worth trying to increase effective income taxes – personal and corporate – but since these initiatives rarely succeed, governments could instead increase indirect
taxes on consumption. Although these taxes are regressive, the ultimate impact can be redistributive on the spending side, as Scandinavian welfare states show. The other main issues to revisit are antitrust policies, agency staffing, and enforcement. Since most competition agencies have been on an upward trend, through numerous reforms, pushing them further along these lines may not meet major political opposition. In general, invisible transfers created by cartels and MNC transfer pricing deserve more research attention to make them more visible. In particular, multilateral institutions like the IDB, ECLAC, the World Bank and others have huge research budgets but have spent little or nothing on these topics. Even small shifts in funding for research on these invisible transfers could lift the veil a bit.
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